



TO: WIA Fiscal Agents, Grant Recipients

FROM: Charles R. Martindale, Deputy Commissioner/Controller
Indiana Department of Workforce Development

DATE: April 21, 2003

SUBJECT: DWD Policy 2002 - 24
Cost Allocation Plan Policy

RE: All Funding Sources Administered by DWD

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Purpose:

To update the Indiana Department of Workforce Development's policy regarding cost allocation plans.

Rescissions:

DWD Communication #97-33, Cost Allocation Plan Policy

Content:

A cost allocation plan (CAP) is a written document that identifies allowable indirect and direct costs and is used to accumulate and distribute such costs. The CAP covers how all costs of an entity are allocated to the various funds in a fair, equitable, and consistently applied manner. The CAP also identifies the allocation methods including bases used for distributing the costs. A plan for allocating joint costs is required to support the distribution of those costs to grant programs. Formal accounting records to substantiate the propriety of the eventual charges must support all costs included in the plan.

The Federal Cost Principles published by the Office of Management and Budget (OMB) establish principles and standards for determining the allowability and allocability of costs to Federal funds. As a recipient of federal funds, your organization and any organization to which you subgrant federal funds are required to adhere to the Federal Costs Principles that apply to your type of organization. The three OMB Federal Costs Principles Circulars, the organization types to which they apply, and their web address locations are as follows:

1. OMB Circular A-21, Cost Principles for Educational Institutions (i.e., a college or university), <http://www.whitehouse.gov/omb/circulars/a021/a021.html>
2. OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments (i.e., any governmental unit such as a State Agency or school corporation), <http://www.whitehouse.gov/omb/circulars/a087/toc.html>
3. OMB Circular A-122, Cost Principles for Non-Profit Organizations, <http://www.whitehouse.gov/omb/circulars/a122/a122.html>

The U.S. Department of Labor, Employment and Training Administration, released the final version of the One-Stop Comprehensive Financial Management Technical Assistance Guide (TAG) in July 2002. This TAG provides excellent guidance on the administrative and financial

management requirements applicable to the One-Stop systems required by the Workforce Investment Act of 1998 (P.L. 105-277). This TAG also includes Chapter II-8, Cost Allocation and Cost Pooling, which we believe to be a good resource as you prepare and/or update your CAPs. The web site for this TAG is http://wdsc.doleta.gov/sga/pdf/FinalTAG_August_02.pdf.

For costs to be allowable with federal funds, they must meet the following general criteria:

1. Be reasonable for the performance of the award and be allocable under the Federal Costs Principles
2. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items
3. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization
4. Be accorded consistent treatment
5. Be determined in accordance with generally accepted accounting principles (GAAP)
6. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or prior period
7. Be adequately documented

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to Federal funds if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

1. Is incurred specifically for the award
2. Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
3. Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown

Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

A CAP should include at the minimum the following parts:

1. Organization chart that identifies all departments, types of services provided, and Federally and non-Federally funded staff functions
2. Description of the types of services provided and their relevance to Federally-funded projects
3. Copy of official financial statements and budgets for the most recently completed and current fiscal years, respectively
4. Schedule of actual direct and indirect expenses by fund source for the most recently completed fiscal year
5. Expense items included in the cost of services
6. Description of the methods including identification of the bases used in distributing the expenses to benefiting cost objectives

7. Certification by an authorized Grant Recipient/WIA FA official that the plan meets WIA or other authorizing legislation and regulations and State or other applicable requirements

Effective Date:

April 21, 2003

Review Date:

April 21, 2005

Ownership:

DWD Analysis and Reconciliation Unit (DWD Finance and Administration Division)

Action:

Each DWD Grant Recipient including Workforce Investment Act (WIA) Fiscal Agents (FA) must verify that their CAP or Indirect Cost Rate, as applicable, presently used for the allocation of costs is current and complies with federal cost principles set forth in the applicable OMB Circulars A-21, A-87, or A-122. In addition, all WIA FA's must verify that the plan equitably allocates costs to all benefiting funding sources since the CAP is being used as the basis for charging costs to fund sources during the period covered. The CAP must contain up-to-date information so it reflects reality and is appropriate to use for allocating costs. If substantial deviations from the current CAP on file with DWD occur and they are not incorporated into a revised written CAP in a timely manner, the existing CAP loses its validity for allocating accrued expenses paid with federal funds. Therefore, each DWD Grant Recipient including WIA FAs that receive federal (and state) funding from DWD must continually monitor the validity of their CAP allocation methodology to avoid potential disallowance of costs, and the financial liability for repayment of disallowed costs to DWD, as agent for the applicable federal (or state) agency.

After the verification process, if the CAP needs updating, please make the appropriate changes immediately. After changes are made, or if you determine that the CAP presently utilized remains valid, retain a copy in your files for review by independent auditors and DWD monitors (DWD staff monitors or its designated contractors).

Each Workforce Investment Act (WIA) Fiscal Agent (FA) must also ensure that a copy of the current compliant CAP is on file with DWD at all times, for purposes of review by both DWD staff and representatives of applicable federal agencies (i.e. US Department of Labor), and examiners of the Indiana State Board of Accounts. Interim modifications to CAPs during each fiscal year period must also be submitted to DWD in order that DWD's files reflect the current methodology of cost allocation.

All Workforce Investment Act (WIA) Fiscal Agents (FA) are to submit a copy of their updated Cost Allocation Plan (CAP) covering the period July 1, 2003 through June 30, 2004, with revisions noted in writing, to Larry Hoskins, Analysis and Reconciliation Accountant, Indiana

Department of Workforce Development, 10 North Senate Avenue, Room SE311, Indianapolis, IN 46204, **no later than June 30, 2003**. If your CAP remains unchanged and is compliant with the standards set forth in the applicable federal OMB Circular, please submit a letter to DWD affirming such status and compliance to Mr. Hoskins at the address noted above by June 30, 2003. All such updated CAP's or written notices of federal OMB Circular compliance must be signed by either the Chief Executive Officer (CEO) or Chief Financial Officer (CFO) of the WIA FA. All interim modifications to a CAP must also be submitted to DWD, with modifications noted in writing, signed by the FA's CEO or CFO. DWD urges all WIA FA's to utilize the services of an independent auditor (i.e. independent Certified Public Accountant or the Indiana State Board of Accounts, as applicable) to review and verify all modifications to Cost Allocation Plans (CAP) prior to submittal to DWD.

It is recommended that if you have a question about the allowability or allocability of a particular cost from Federal funds, that you submit a written request to the Deputy Commissioner/Controller of DWD prior to the incurrence of such cost.

Any questions concerning this communication may be directed to Mr. Hoskins of the Analysis and Reconciliation Unit at 317/233-1707.

cc: WIB Chairs
 WIB Directors